

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature <i>Siegfried Crandall P.C.</i>			Date	

Dorr Township - Leighton Township Waste Water Authority
Allegan County, Michigan

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

Years ended December 31, 2005 and 2004

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INDEPENDENT AUDITORS' REPORT

**Members of the Board
Dorr Township - Leighton Township
Waste Water Authority**

We have audited the accompanying basic financial statements of the Dorr Township - Leighton Township Waste Water Authority, as of December 31, 2005 and 2004, and for the years then ended, as listed in the contents. These financial statements are the responsibility of the Dorr Township - Leighton Township Waste Water Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Dorr Township - Leighton Township Waste Water Authority at December 31, 2005 and 2004, and the changes in financial position and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

The Dorr Township - Leighton Township Waste Water Authority has not presented a management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Siegfried Crandall P.C.

June 26, 2006

BASIC FINANCIAL STATEMENTS

Dorr Township - Leighton Township Waste Water Authority**STATEMENT OF NET ASSETS***December 31, 2005 and 2004*

	<u>2005</u>	<u>2004</u>
ASSETS		
Current assets:		
Cash	\$ 688,434	\$ 918,296
Investments	887,297	292,297
Receivables	<u>388,979</u>	<u>267,326</u>
Total current assets	<u>1,964,710</u>	<u>1,477,919</u>
Noncurrent assets:		
Receivables	939,093	466,341
Capital assets (net of accumulated depreciation)	<u>7,033,535</u>	<u>6,669,790</u>
Total noncurrent assets	<u>7,972,628</u>	<u>7,136,131</u>
Total assets	<u>9,937,338</u>	<u>8,614,050</u>
LIABILITIES		
Current liabilities:		
Payables	58,809	37,167
Current portion of long-term obligations	<u>50,000</u>	<u>570,000</u>
Total current liabilities	108,809	607,167
Noncurrent liabilities - long-term obligations	<u>4,753,355</u>	<u>3,603,355</u>
Total liabilities	<u>4,862,164</u>	<u>4,210,522</u>
NET ASSETS		
Investment in capital assets, net of related debt	2,230,180	2,496,435
Unrestricted	<u>2,844,994</u>	<u>1,907,093</u>
Total net assets	<u>\$ 5,075,174</u>	<u>\$ 4,403,528</u>

See notes to financial statements

Dorr Township - Leighton Township Waste Water Authority**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS***Years ended December 31, 2005 and 2004*

	<u>2005</u>	<u>2004</u>
OPERATING REVENUES		
Sewer usage charges	<u>\$ 257,687</u>	<u>\$ 201,040</u>
OPERATING EXPENSES		
Administrative wages and per diems	13,953	12,243
Payroll taxes	2,435	1,255
Maintenance and repairs	32,206	28,493
Professional fees	28,120	12,558
Contract services	115,000	114,000
Telephone	3,919	3,856
Insurance	9,804	9,942
Utilities	30,606	29,805
Miscellaneous	4,816	2,593
Depreciation	<u>211,366</u>	<u>211,366</u>
Total operating expenses	<u>452,225</u>	<u>426,111</u>
OPERATING LOSS	<u>(194,538)</u>	<u>(225,071)</u>
NONOPERATING REVENUES (EXPENSES)		
Assessments	919,343	-
Hook-up fees	55,424	39,664
Interest revenue	80,969	92,915
Interest expense	<u>(189,552)</u>	<u>(208,358)</u>
Total nonoperating revenues (expenses)	<u>866,184</u>	<u>(75,779)</u>
CHANGE IN NET ASSETS	671,646	(300,850)
NET ASSETS - BEGINNING	<u>4,403,528</u>	<u>4,704,378</u>
NET ASSETS - ENDING	<u>\$ 5,075,174</u>	<u>\$ 4,403,528</u>

See notes to financial statements

Dorr Township - Leighton Township Waste Water Authority**STATEMENT OF CASH FLOWS**

Years ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 254,730	\$ 194,997
Payments to suppliers	(222,308)	(201,506)
Payments to employees	(13,953)	(12,243)
Net cash provided by (used in) operating activities	<u>18,469</u>	<u>(18,752)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Hook-up fees	55,424	39,664
Assessment collections	336,915	300,400
Interest on special assessments	37,888	54,845
Acquisition of capital assets	(558,499)	-
Issuance of general obligation bonds	5,070,046	-
Bond issuance costs	(225,046)	-
Interest paid on general obligation bonds	(189,120)	(208,145)
Principal paid on general obligation bonds	(4,215,000)	(560,000)
Net cash provided by (used in) capital and related financing activities	<u>312,608</u>	<u>(373,236)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Redemption of investments	70,000	543,000
Purchase of investments	(665,000)	(187,297)
Interest on investments	34,061	63,587
Net cash provided by (used in) investing activities	<u>(560,939)</u>	<u>419,290</u>
NET INCREASE (DECREASE) IN CASH	<u>(229,862)</u>	<u>27,302</u>
CASH - BEGINNING	<u>918,296</u>	<u>890,994</u>
CASH - ENDING	<u>\$ 688,434</u>	<u>\$ 918,296</u>

See notes to financial statements

Dorr Township - Leighton Township Waste Water Authority

STATEMENT OF CASH FLOWS (Continued)

Years ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	\$ (194,538)	\$ (225,071)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	211,366	211,366
Increase in accounts receivable	(2,957)	(6,043)
Increase in accounts payable	<u>4,598</u>	<u>996</u>
 Net cash provided by (used in) operating activities	 <u>\$ 18,469</u>	 <u>\$ (18,752)</u>
 Supplementary information:		
Acquisition of capital assets	\$ (575,111)	\$ -
Increase in accounts payable	<u>16,612</u>	<u>-</u>
 Cash used	 <u>\$ (558,499)</u>	 <u>\$ -</u>

See notes to financial statements

Dorr Township - Leighton Township Waste Water Authority
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Dorrr Township - Leighton Township Waste Water Authority, Michigan (the Authority), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the significant accounting policies:

a) Reporting entity:

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Authority. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. The Authority has determined that no outside agency meets the above criteria and, therefore, no other agency has been included as a blended or discretely-presented component unit in the Authority's financial statements.

b) Basis of accounting:

The Authority uses the accrual basis of accounting to account for its operations. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed to the extent that those standards do not conflict with or contradict the standards of the Governmental Accounting Standards Board. The Authority has elected not to follow subsequent private-sector standards.

c) Operating revenues and expenses:

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with principal ongoing operations. Operating revenues represent billings to customers for operating and maintaining the utility systems located in and owned by the constituent municipalities. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

d) Assets and liabilities:

i) Cash - Cash is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

ii) Receivables - All receivables are considered to be fully collectible.

iii) Capital assets - Capital assets, which include property, equipment, and vehicles, are defined by the Authority as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are comprised of the Authority's sewer system and improvements, which are being depreciated using the straight-line method over a 40 year estimated useful life.

Dorr Township - Leighton Township Waste Water Authority
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - CASH:

	<u>2005</u>	<u>2004</u>
<i>Financial statements:</i>		
Cash	\$ 688,434	\$ 918,296
Investments	<u>887,297</u>	<u>292,297</u>
	<u>\$1,575,731</u>	<u>\$1,210,593</u>
<i>Notes to financial statements:</i>		
Deposits	<u>\$1,575,731</u>	<u>\$1,210,593</u>

Deposits:

Deposits are carried at cost and are maintained at various financial institutions in the name of the Authority's Treasurer. Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in accounts of federally-insured banks, credit unions, and savings and loan associations. At December 31, 2005 and 2004, the Authority has deposits with carrying amounts of \$1,575,731 and \$1,210,593, respectively with corresponding bank balances of \$1,574,060 and \$1,229,677. Of the December 31, 2005, bank balance, \$400,000 is covered by federal depository insurance and \$1,174,060 is uninsured.

NOTE 3 - RECEIVABLES:

Receivables for the Authority as of years ended December 31, 2005 and 2004, in the aggregate, are as follows:

	<u>Charges for services</u>	<u>Interest</u>	<u>Special assessments</u>	<u>Totals</u>
2005	\$ 17,362	\$ 14,431	\$ 1,296,279	\$ 1,328,072
2004	14,405	5,411	713,851	733,667
Noncurrent portion:				
2005	\$ -	\$ 14,431	\$ 924,662	\$ 939,093
2004	-	4,260	462,081	466,341

Dorr Township - Leighton Township Waste Water Authority
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - CAPITAL ASSETS:

Capital asset activity of the Authority for the years ended December 31, 2005 and 2004, was as follows:

	<i>Balance January 1, 2005</i>	<i>Increases</i>	<i>Decreases</i>	<i>Balance December 31, 2005</i>
Capital assets not being depreciated:				
Land	\$ 49,385	\$ -	\$ -	\$ 49,385
Construction in progress	-	575,111	-	575,111
Total capital assets not being depreciated	49,385	575,111	-	624,496
Capital assets being depreciated:				
Sewer system	8,454,799	-	-	8,454,799
Less accumulated depreciation for:				
Sewer system	1,834,394	211,366	-	2,045,760
Total capital assets being depreciated, net	6,620,405	(211,366)	-	6,409,039
Total capital assets, net	\$ 6,669,790	\$ 363,745	\$ -	\$ 7,033,535
	<i>Balance January 1, 2004</i>	<i>Increases</i>	<i>Decreases</i>	<i>Balance December 31, 2004</i>
Capital assets not being depreciated:				
Land	\$ 49,385	\$ -	\$ -	\$ 49,385
Capital assets being depreciated:				
Sewer system	8,454,799	-	-	8,454,799
Less accumulated depreciation for:				
Sewer system	1,623,028	211,366	-	1,834,394
Total capital assets being depreciated, net	6,831,771	(211,366)	-	6,620,405
Total capital assets, net	\$ 6,881,156	\$ (211,366)	\$ -	\$ 6,669,790

Dorr Township - Leighton Township Waste Water Authority
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - LONG-TERM LIABILITIES:

Long-term debt at December 31, 2005 and 2004, is comprised of the following individual issues:

	<u>2005</u>	<u>2004</u>
In 1999, the Authority financed construction of a treatment plant and improvements of its waste water system through the issuance of revenue bonds by the County of Allegan in the amount of \$5,830,000, due in annual installments ranging from \$200,000 to \$500,000 through November 2012, plus interest from 4.25% to 4.30% per annum, payable in semi-annual installments.	\$ -	\$4,000,000
In 1992, the Authority financed improvements of its waste water system through the issuance of revenue bonds in the amount of \$660,000, due in annual installments ranging from \$5,000 to \$75,000 through February 2007, plus interest at 5.487% per annum, payable in semi-annual installments.	-	215,000
In 2005, the Authority refinanced its outstanding debt and financed improvements of its waste water system through the issuance of general obligation limited tax bonds in the amount of \$5,060,000. The bonds are due in annual installments ranging from \$50,000 to \$390,000 through May 2025, plus interest at 3.00 - 4.40% per annum, payable in semi-annual installments.	<u>5,060,000</u>	<u>-</u>
	5,060,000	4,215,000
Less unamortized discount	<u>60,384</u>	<u>41,645</u>
Total long-term liabilities	<u>\$4,999,616</u>	<u>\$4,173,355</u>

The full faith, credit, and resources of the Township of Dorrr and the Township of Leighton have been pledged for the prompt payment of all debt requirements.

Dorr Township - Leighton Township Waste Water Authority
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - LONG-TERM LIABILITIES (Continued):

Long-term liability activity for the year ended December 31, 2005 and 2004, was as follows:

	<u>1992 Bonds payable</u>	<u>1999 Bonds payable</u>	<u>2005 Bonds payable</u>	<u>Totals</u>
Beginning balance - January 1, 2004	\$ 275,000	\$ 4,500,000	\$ -	\$ 4,775,000
Additions	-	-	-	-
Reductions	<u>(60,000)</u>	<u>(500,000)</u>	<u>-</u>	<u>(560,000)</u>
Ending balance - December 31, 2004	<u>\$ 215,000</u>	<u>\$ 4,000,000</u>	<u>\$ -</u>	<u>\$ 4,215,000</u>
Beginning balance - January 1, 2005	\$ 215,000	\$ 4,000,000	\$ -	\$ 4,215,000
Additions	-	-	5,060,000	5,060,000
Reductions	<u>(215,000)</u>	<u>(4,000,000)</u>	<u>-</u>	<u>(4,215,000)</u>
Ending balance - December 31, 2005	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,060,000</u>	<u>\$ 5,060,000</u>
Amounts due within one year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ 50,000</u>

Debt service requirements at December 31, 2005, were as follows:

<u>Year ended December 31:</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 50,000	\$ 204,851
2007	50,000	203,289
2008	50,000	201,601
2009	50,000	199,726
2010	235,000	194,467
2011 - 2015	1,300,000	829,181
2016 - 20120	1,515,000	548,441
2021 - 2025	<u>1,810,000</u>	<u>202,361</u>
Totals	<u>\$ 5,060,000</u>	<u>\$ 2,583,917</u>

Dorr Township - Leighton Township Waste Water Authority
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - PAYABLES:

Payables for the Authority as of years ended December 31, 2005 and 2004, in the aggregate, are as follows:

<u>Operating fund</u>	<u>Accounts</u>	<u>Interest</u>	<u>Totals</u>
2005	\$ 24,542	\$ 34,267	\$ 58,809
2004	3,332	33,835	37,167

NOTE 7 - CLAIMS ARISING FROM RISKS OF LOSS:

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Authority has purchased commercial insurance for each of these claims and is neither self-insured nor participates in a shared-risk pool. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 8 - ADVANCE REFUNDING OF LONG-TERM LIABILITIES:

On May 18, 2005, the Authority issued \$5,060,000 in limited tax general obligation bonds with an average interest rate of 4.09% to finance improvements in the amount of \$845,000, and to advance refund \$4,000,000 of outstanding 1998 Series bonds with average interest rates of 4.28%. The net proceeds of \$4,028,785 (net of construction funds, and after payment of \$196,261 in underwriting fees, insurance, and other issuance costs) were used to purchase government securities.

The above purchased securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portions of the 1998 bonds. As a result, the refunded bonds are considered to be defeased and the liability for the refunded portions of the bonds has been removed from the government-wide statement of net assets. The refunded bonds were called in November 2005.

The Authority completed the advance refunding to finance new construction, and to extend the payment of principal by 13 additional years to 2025. The refunding resulted in an economic loss (difference between the present values of the old and new debt service payments) of \$54,085. The reacquisition prices exceeded the net carrying amount of the old debt by \$18,739. This amount is netted against the new debt and is being amortized over the life of the new debt issued.